business systems modernization

delivering 21st century logistics

Defense Logistics Agency's BSM ePROCUREMENT Initiative

Mr. Robert Gee

23 August 2004

Agenda

- Business Systems Modernization (BSM) Overview
- Procurement Situation within BSM
- eProcurement Initiative
- Solution Capabilities
- Project Accomplishments / What's Next?

Business Systems Modernization is …

- Major transformation effort--massive change for our workforce, creation of an enterprise
- Incorporating Best Practices via Commercial-off-the-Shelf (COTS) based tools
  - SAP = ERP platform
  - Niche bolt-on products (e.g., demand planning = Advance Planning and Scheduling COTS, procurement = GOTS)
- BSM replaces 30-year old Materiel Management Systems … and our processes were embedded in those systems
- The core of DLA's Enterprise Architecture
- Partnered with Accenture as Systems Integrator

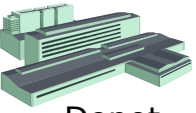
Major Reengineering Effort … from functionally stove--piped segments to cross-cutting Enterprise-wide processes

DLA Target Architecture

Customer Processes

Operations

Readiness



Depot Maintenance

Base/Post Operations

Web Portal

Security Authentication

Corporate Information Services, Translation, Information Exchange, Reference Data

Customer Relationship Management

Manugistics

Supply Chain Management

SAP

SAP eProcurement

Financial Management

Distribution Planning & Mgmt

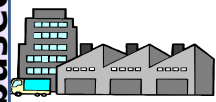
Standards-based Interoperability

Enterprise Integrated Data Environment

Standards-based Interoperability

Supplier/ Partner Processes

Transportation



Manufacturers

Distributors

Financial Management

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The Procurement Function IT Situation at DLA

- As in other IT areas of DLA, the procurement function has squeezed significant improvements out of its legacy environment in order to serve customers and improve efficiencies
- This is needed for survival with:
  - Delivery order volumes approaching 10 million annually
  - High % of purchase orders are one time buys
- While this drive for efficiency and customer service has led to some improvements, it has led to some inefficiencies as well:
  - Each DLA operating entity has "tailored" the legacy procurement system
  - Operating practices are not easily aligned across the Agency

DLA needs a Procurement Platform That…

Enables OPERATIONAL EXCELLENCE

- Delivers end-to-end processes
- Scales with business growth
- Manages cost of operations

Enables SPEND CONTROL

- Creates common view of data
- Enforces internal compliance
- Provides process flexibility

Enables BUSINESS CHANGE

- Monitors supplier performance
- Accelerates supplier adoption
- Supports future innovation

The Agency has decided that a new procurement platform is needed, based on COTS Supplier Relationship Management (SRM)

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ePROCUREMENT
Project Description and Scope

Description

- **Partnership between DLA, Accenture, and SAP to build an integrated supplier relationship management (SRM) product**

Project Objectives

- **Obtain long term benefits associated with a fully integrated, single vendor ERP solution**
- **Influence SAP's Federal COTS product development**

Scope

- **Release One Software – Automated Delivery Order Capability**
- **Release Two Software – Automated Simplified Acquisition Process, Complex Document Generation, Records Management**

✓= Complete		Release 1		Release 2
Use Cases	Phase 1	Dec 13, 2002 ✓	Phase 3	Aug 1, 2003 ✓
Specifications	Phase 2	Mar 19, 2003 ✓	Phase 4	May 11, 2004 ✓
Software Delivery		Oct 31, 2003 ✓		Apr 18, 2005
Acceptance		Dec 19, 2003 ✓		Sept 16, 2005

Project Participants

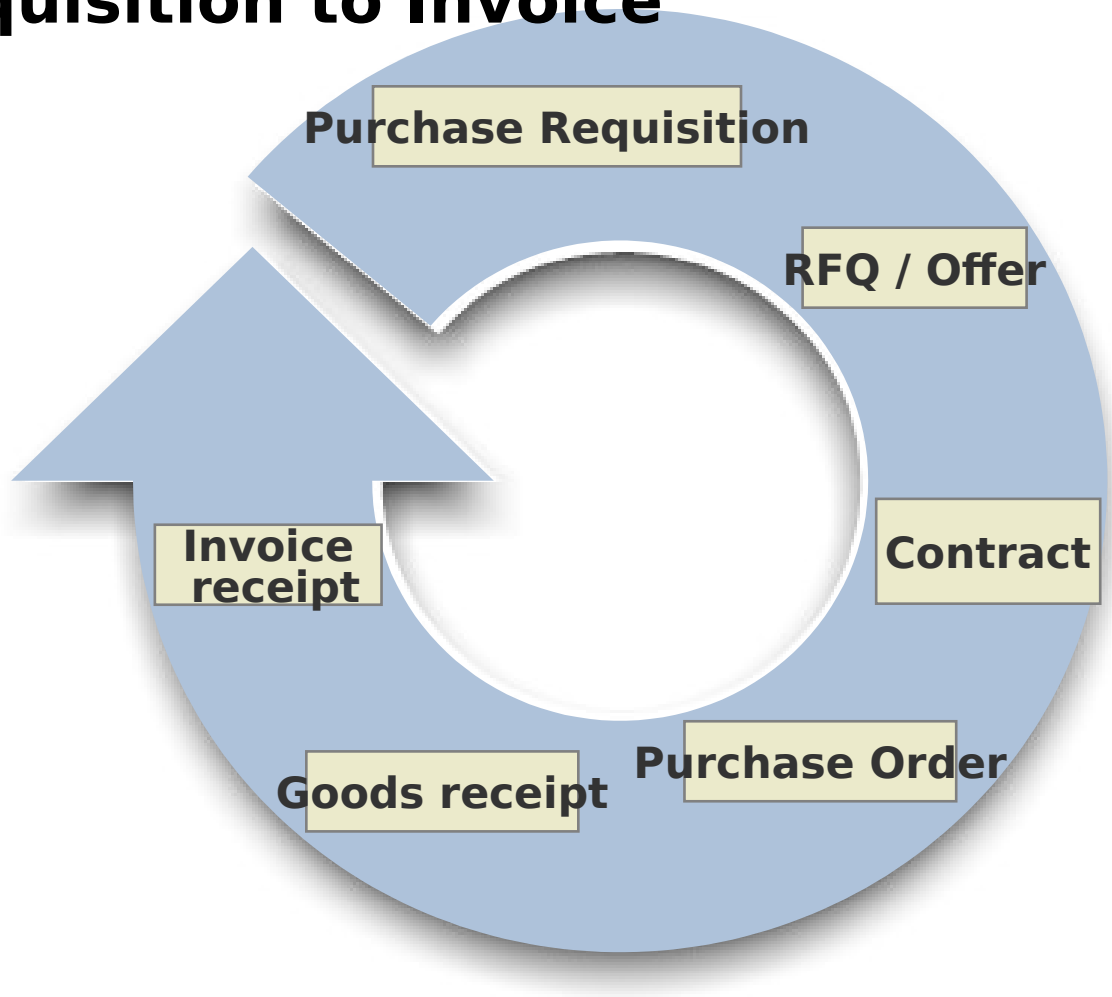
- DLA ICPs
  - Define and communicate requirements to SAP
  - Review and approve SAP specifications
  - Provide capability and usability feedback during software prototypes
  - Develop and execute software acceptance tests
- SAP
  - Develop software specifications based on input from DLA and other channels
  - Build, test, and deliver COTS software
- Accenture
  - Provide project management support
  - Define and coordinate all communication between parties
  - Act as DLA's advocate in presenting requirements to SAP
  - Provide SAP expertise and support in configuring software for acceptance testing
- DLA Defense Energy Support Center and NAVICP

Project's Relationship to BSM

- Project is managed under BSM program
- SAP eProcurement is the end-state solution for BSM procurement functionality
- The project is a block release under BSM Program … implementation will occur after Full Operating Capability in FY07
- Funding for development completion and integration with BSM is part of the PBR 06 submission

SAP's Challenge is to Take COTS Beyond Commercial Procurement Support…

Commercial Procurement Process Flow Example: Requisition to Invoice



Majority of process a
format of transactio
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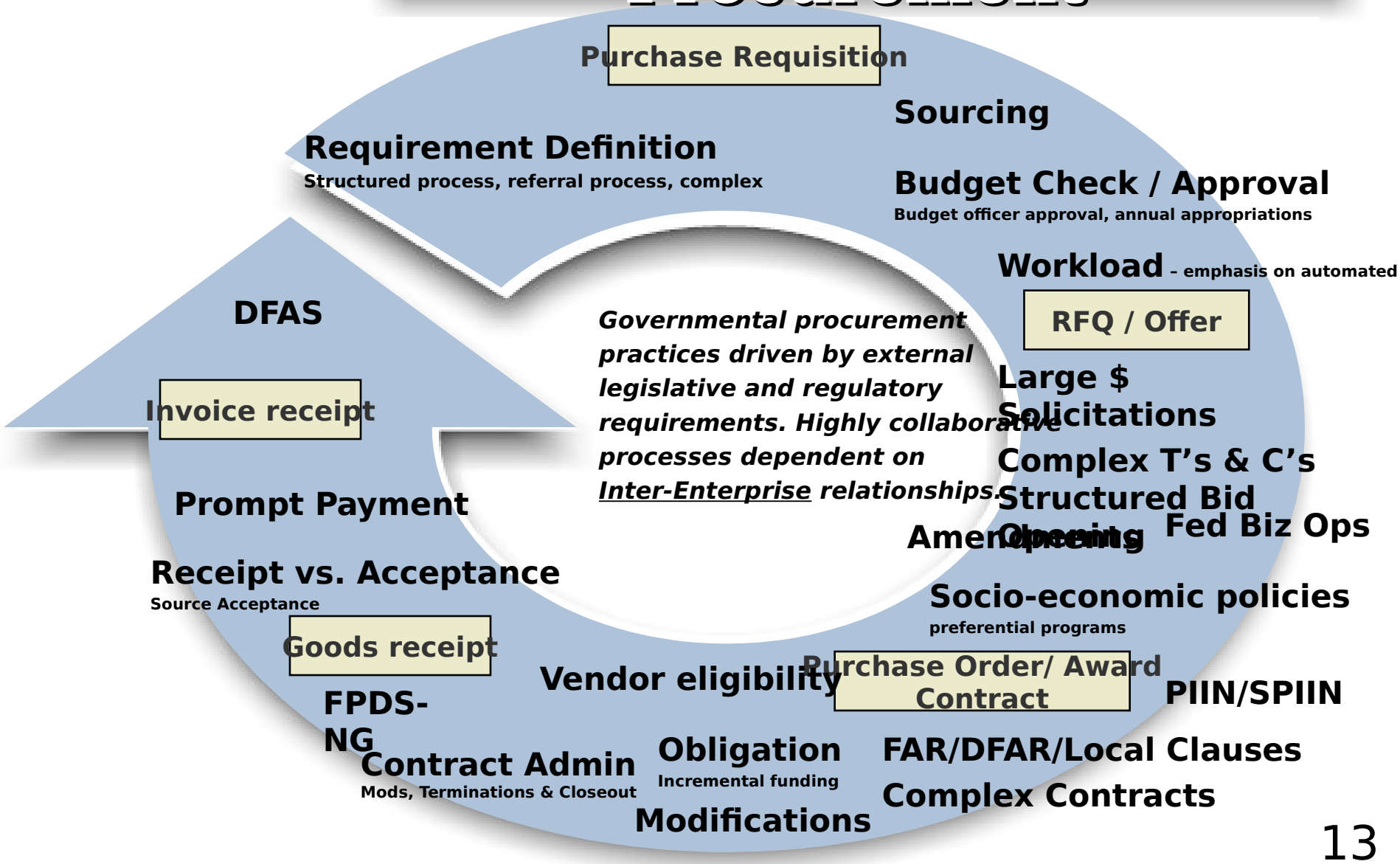
… and Into the World of Complex Government Procurement



Benefits of a Fully Integrated, Single Vendor ERP Solution

- SAP's eProcurement solution operates seamlessly with other SAP components to support the full Federal procurement lifecycle process (Document Builder, Records Mgt, Business Warehouse, Portal, Adobe Forms)
- SAP eProcurement is fully integrated with SAP's JFMIP certified Financials and Materials Management
  - Provides a completely synchronized, near real-time system for budgets, commitments, obligations and expenditures
  - Supports upgrade process by ensuring system compatibility between software releases
- Eliminates need for operating and maintaining multiple procurement solutions and associated interfaces (e.g. SAP R3/PD2 or SAP R3/DPACS)

Influence SAP's Federal COTS Product Development

- Obtain DLA/DoD functionality that does not exist in SAP's current procurement products
  - Increase the likelihood of developing functionality for DLA specific requirements that probably would have been absent if a Federal civilian agency had partnered with SAP for this project
  - Commits SAP to planning future eProcurement releases around DLA/DoD requirements
- Influence SAP's system design to improve usability based on DLA's high volume procurement processing requirements

Strategic Advantages to the Partnership

- DLA/ DOD strategic advantage
  - Participation in requirements definition
  - Influence COTS product development
  - Fully integrated SAP solution in the long term
  - Encourages competition to drive down cost
- SAP strategic advantage
  - Validates the usefulness of the product
  - Accelerates entry into the Defense market
  - SAP deliberate strategy targets all public sector
- Accenture strategic advantage
  - Early experience with new SAP product line

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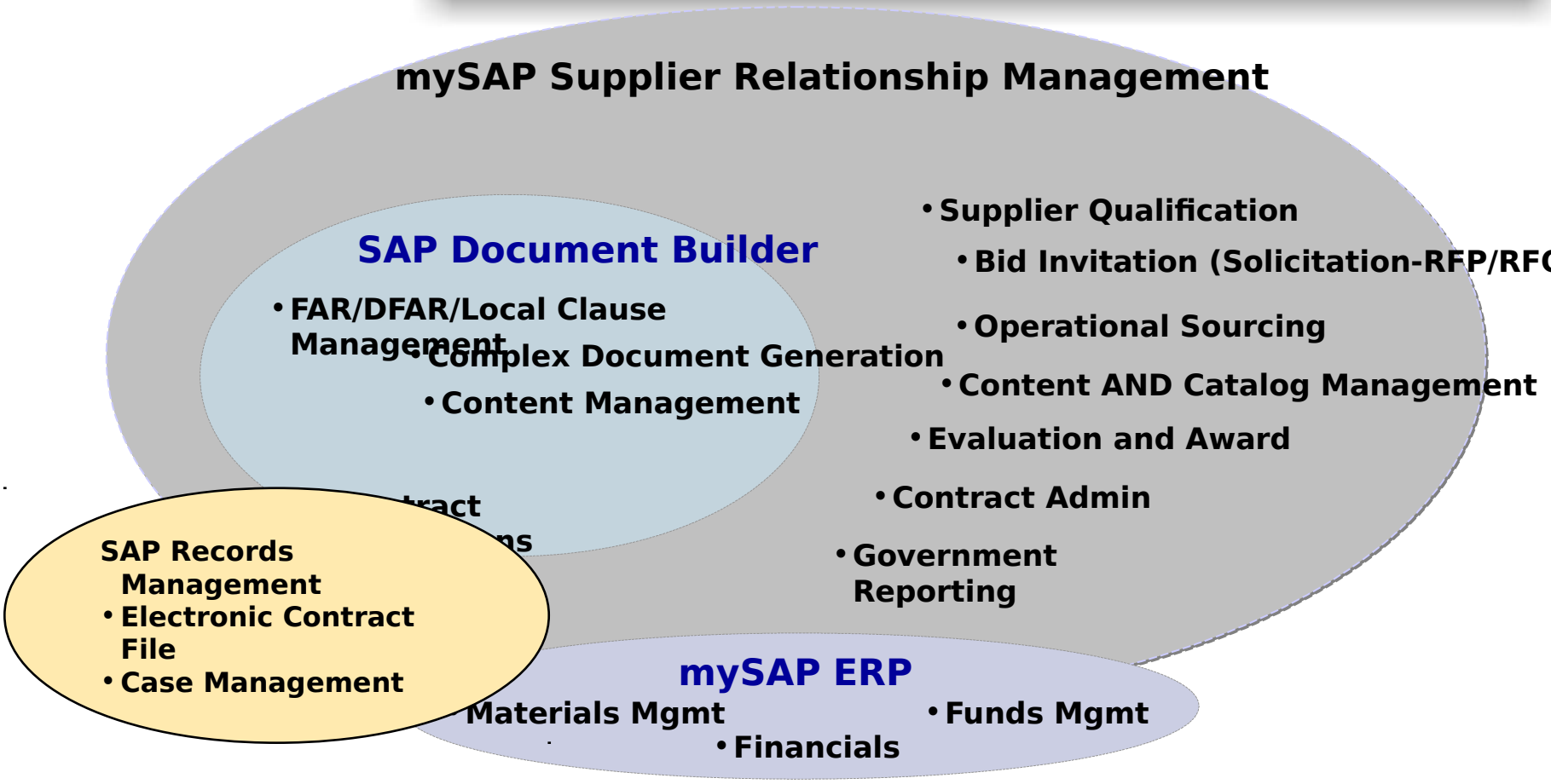
Initial Software Releases

- Release One – Automated Delivery Order (i.e., Purchase order) process
  - Automated Sourcing and Delivery Orders
  - PIIN/SPIIN – (Supplementary) Procurement Instrument Identification Number
  - Workload Assignments
  - Automated / Automatic Sourcing
  - Financial Integration
- Release Two – Complex Contracting and Automated Simplified Acquisition Process
  - Vendor Management (interfaced with CCR)
  - Complex Contracting
  - Contract Admin Functions (Modifications, Terminations and Closeouts)
  - FPDS-NG: Federal Procurement Data System Next Generation
  - Bid Invitation Process
  - Records Management/Case Management (Electronic Contract File)
  - FedBizOps

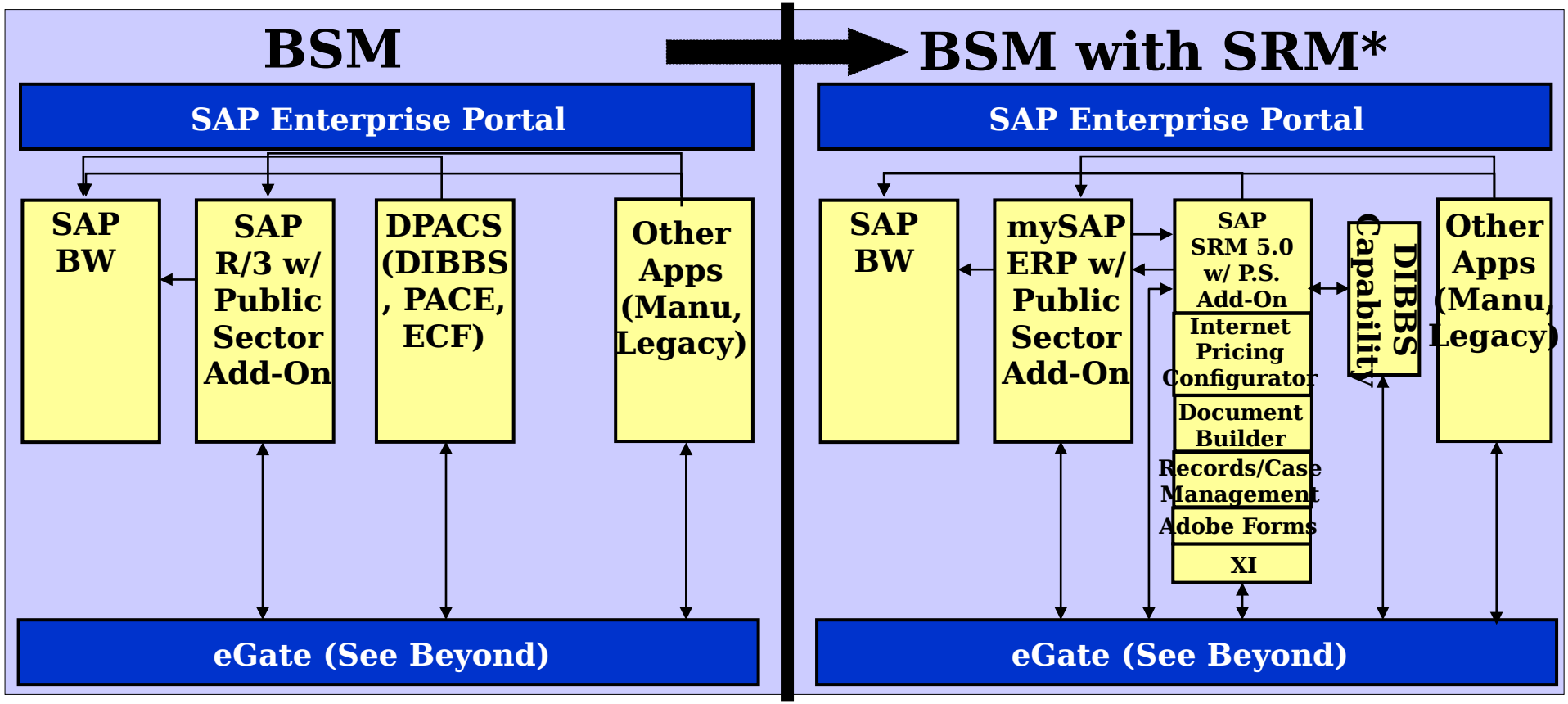
SAP's Proposed Solution = SAP E-Procurement with mySAP Public Sector



Manual
Processing
High Complexity
One time buy
Low volume

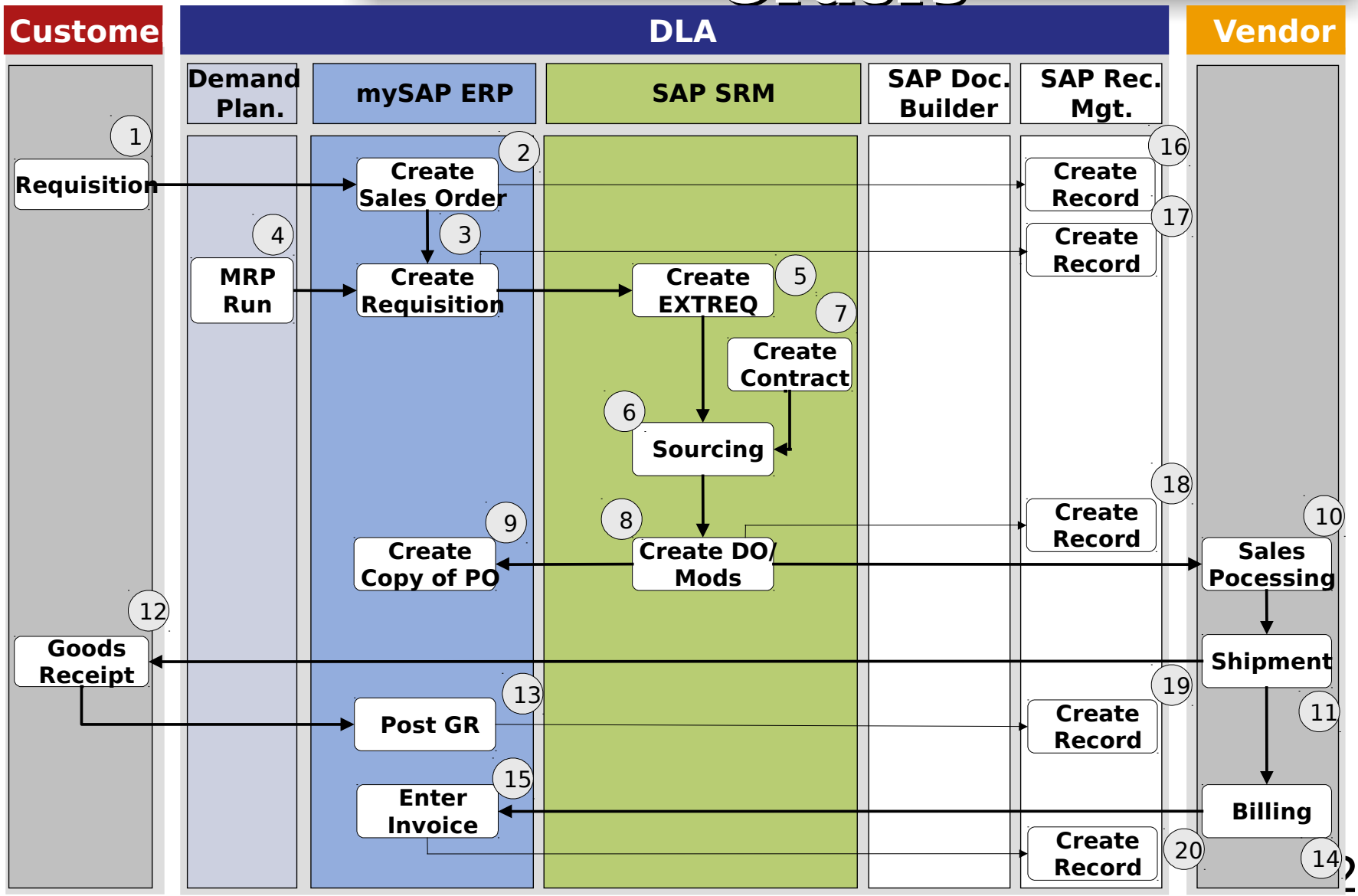
Highly Automated
Repeatable
High Volumes
Repeatable

BSM Procurement Architectural View with SRM

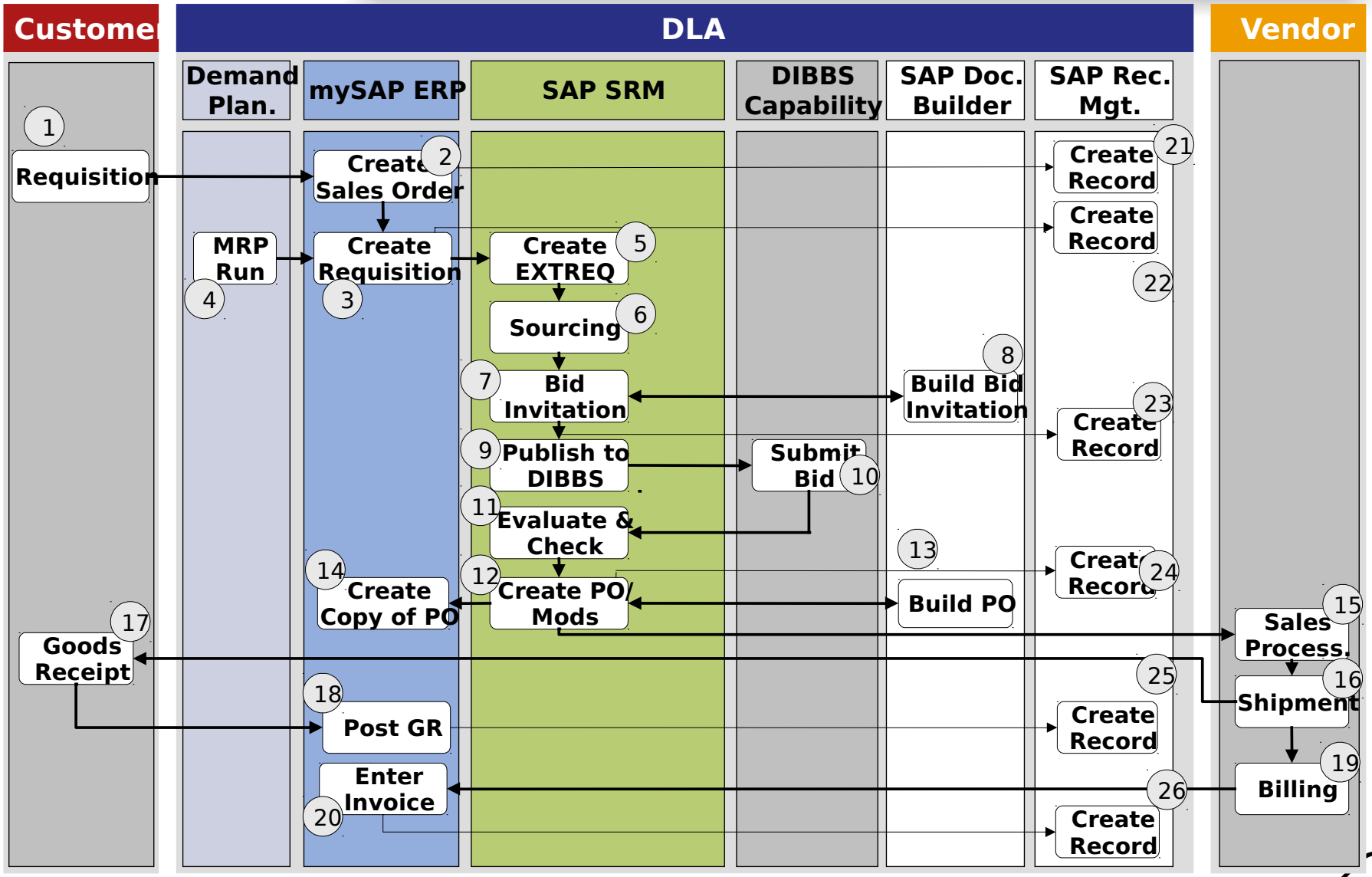


* eProcurement functionality will be included in the SAP SRM module

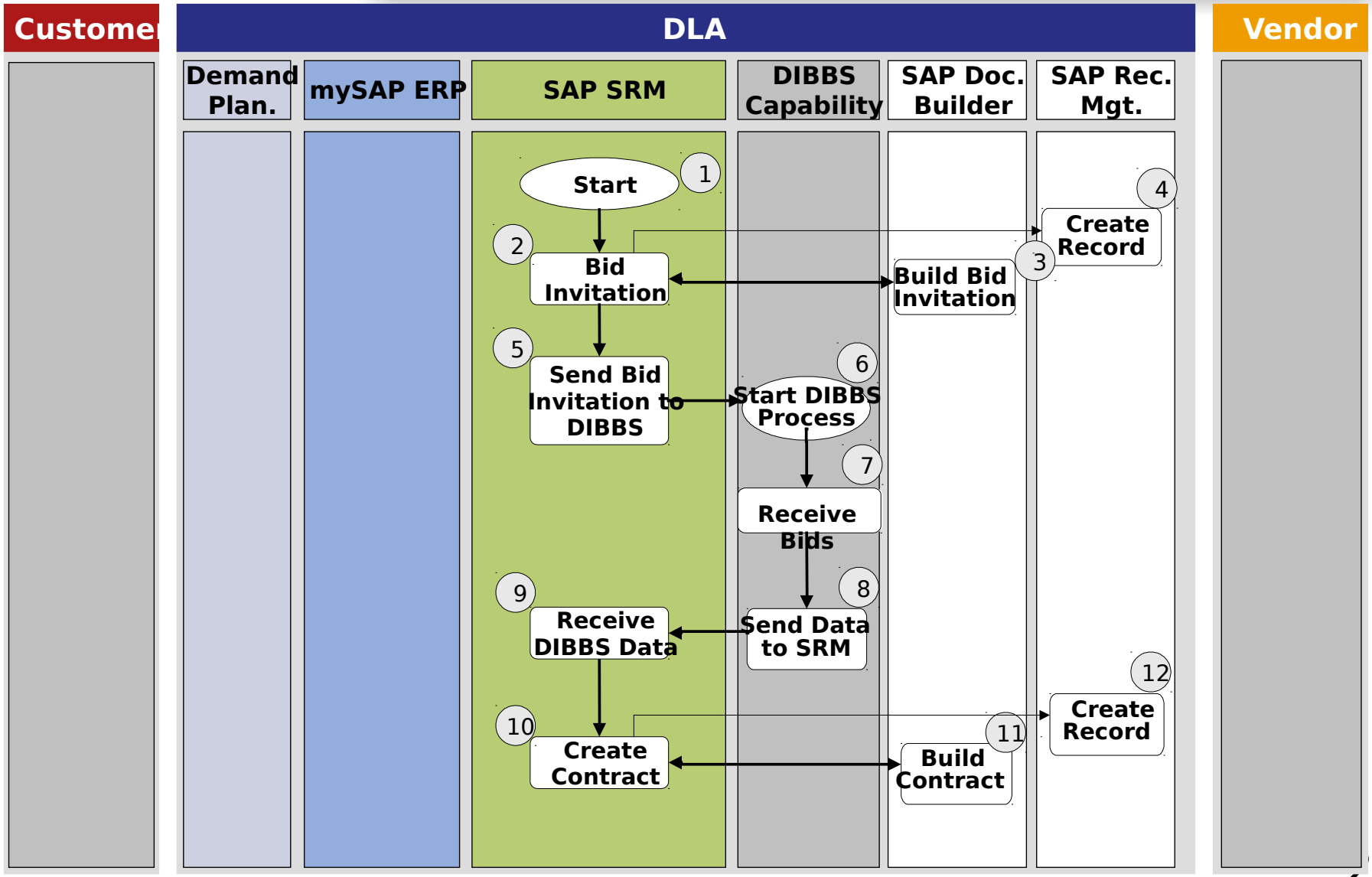
Application Architecture Automated Delivery Orders



Application Architecture One-Time Buys



Application Architecture Contract Creation



DLA/DoD Capabilities Developed for eProcurement

- DoD PIIN/SPIIN Document Number Generation
  - Enhancements to key eProcurement screens and Materials Management reports to display PIIN/SPIIN
- Master Data
  - New master and transactional data elements based on discussions with DLA
  - Delivered interfaces and associated data elements to capture CCR information and to complete FPDS-NG reporting
  - Enhanced functionality to support DLA's requirements for procuring based on manufacturer/manufacturer part number (CAGE/Part #) vs. NSN
- Fully Automated Delivery Order Process
  - Scalable to support increases beyond current DLA delivery order volume
  - Automatically source incoming requisitions to potential sources of supply using DLA configurable rules
  - Automatically create and award delivery orders, posting copies to SAP ERP, Records Management (electronic contract file), and the Web

DLA/DoD Capabilities Developed for eProcurement

- Automated Simplified Acquisition Creation
  - Scalable to support increases beyond current DLA purchase order volume
  - Automatically source incoming requisitions to potential sources of supply or create auto solicitation using DLA configurable rules
  - Automatically post to FedBizOps if required by business rules
  - Automatically determine winning quote based on DLA configurable rules, complete purchase order award and FPDS-NG report (if required)
  - Automatically post copies to SAP ERP, Records Management (electronic contract file), and the Web
- Intelligent User Assistance, Using SAP Document Builder, to Develop Complex Procurement Documentation (e.g. contracts, solicitations, orders, BPAs, BOAs)
  - Supports ability to include FAR, DFARS, Agency specific terms and conditions, attachments
- DLA Electronic Contract Folder using SAP Records Management
  - Captures pre-award, award, and post-award documents

DLA/DoD Capabilities Developed for eProcurement

- Enhanced Post Award Functionality
  - Term and quantity options
  - Terminations and cancellations
  - Mass mods to multiple contracts
  - Novations
  - Capability to process DLA diversions
  - Automated closeout process based on configurable business rules
- Configurable Workload Assignments
- Automated Approval Workflows
- Automated Funds Check

DLA/DoD Capabilities Developed for eProcurement

- Other Capabilities Developed as Part of eProcurement Project
  - Ability to identify different vendors' specific unit of measures on solicitations and awards for a specific item
  - Selective promotion capability to manage end of fiscal year award obligations
  - Origin Acceptance functionality that supports the various goods receipt/ acceptance scenarios
  - Ability to support guaranteed minimums
  - Sourcing based on DLA quota arrangements
  - Creation of awards supporting the DLA phased deliveries requirements
  - Capability for procurement personnel to view award financial transactions (e.g. goods receipts, invoices, credits) in eProcurement

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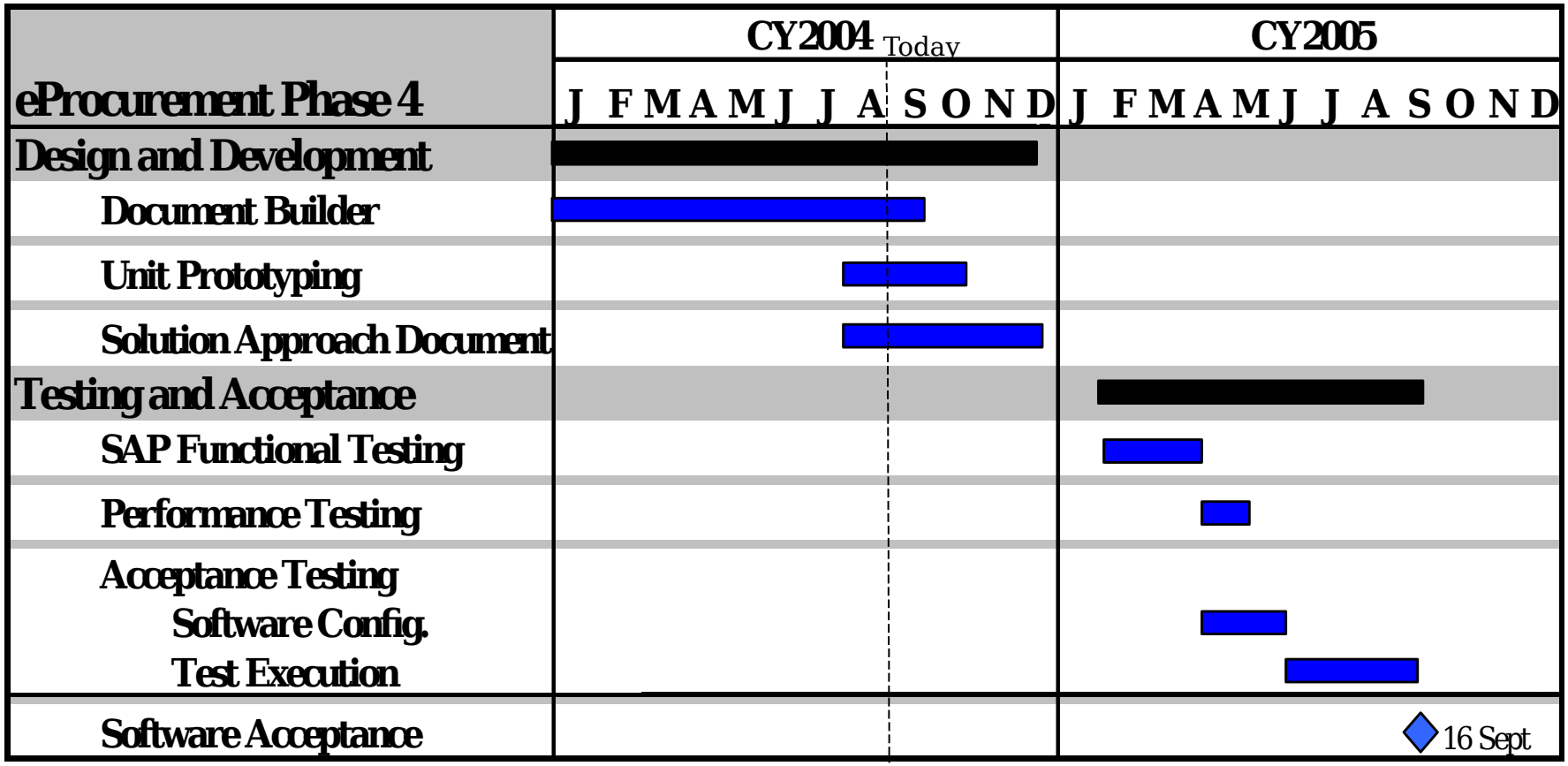
What Have We Accomplished?

- Designed and developed Release 1 software to fully automate DLA's delivery order process (Phases 1 & 2)
- Tested and accepted Release 1 software (Phase 2)
- Improved approach for Release 2 (Phases 3 & 4) based on Release 1 experiences
- Accepted Release 2 specifications for automating simplified acquisition creation, providing intelligent user assistance for complex procurement documentation, and supplying electronic contract folder functionality

ePROCUREMENT SOFTWARE (RESULTING FROM RELEASES 1 & 2) WILL FULLY AUTOMATE THE END-TO-END FEDERAL ACQUISITION PROCESS FOR DLA

What's Next? Phase 4 Approach/Schedule



Conclusion

Expectation that mySAP SRM will improve the procurement cycle, resulting in a more responsive supply chain

- **Reduced Process Costs**
- **Compressed Cycle Times**
- **Lower unit price**

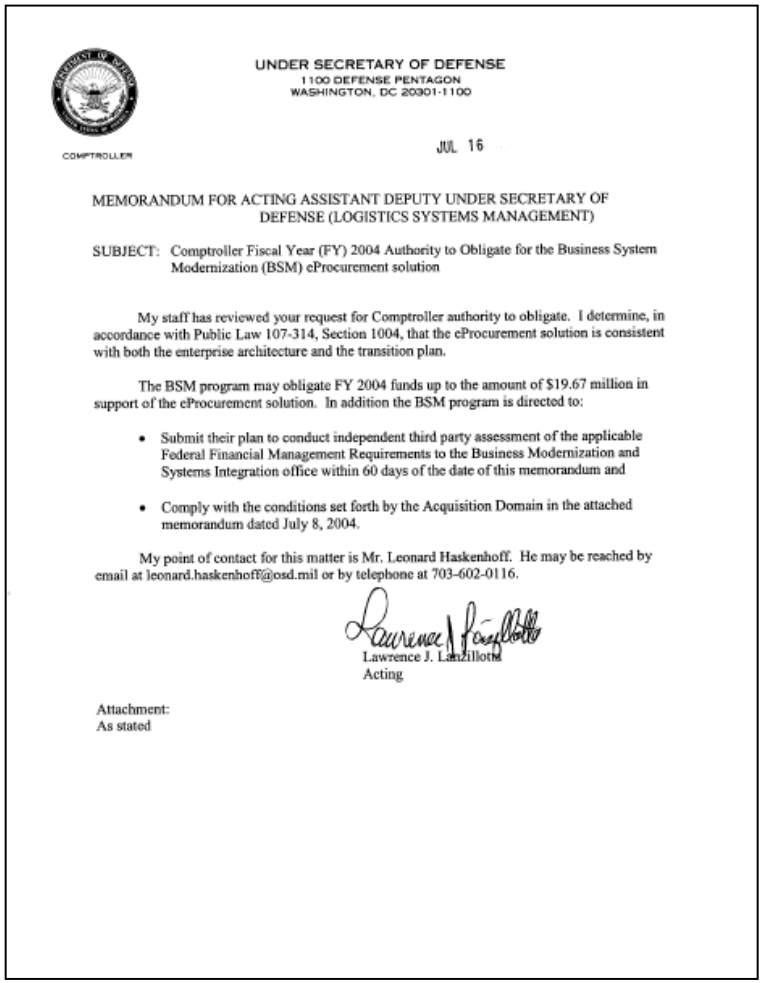
- Full-cycle SRM
  - Close the loop between sourcing and procurement
  - Close the loop within the enterprise
  - Close the loop across the extended supply base

- Open technology platform
  - Provide extensibility without requiring modifications
  - Open Platform
  - Provide a lower total cost of ownership

Back Up Slides

BSM eProcurement (SRM) … Received approval to proceed

OSD Comptroller Memo



UNDER SECRETARY OF DEFENSE
1100 DEFENSE PENTAGON
WASHINGTON, DC 20301-1100

COMPTROLLER

JUL 16

MEMORANDUM FOR ACTING ASSISTANT DEPUTY UNDER SECRETARY OF DEFENSE (LOGISTICS SYSTEMS MANAGEMENT)

SUBJECT: Comptroller Fiscal Year (FY) 2004 Authority to Obligate for the Business System Modernization (BSM) eProcurement solution

My staff has reviewed your request for Comptroller authority to obligate. I determine, in accordance with Public Law 107-314, Section 1004, that the eProcurement solution is consistent with both the enterprise architecture and the transition plan.

The BSM program may obligate FY 2004 funds up to the amount of $19.67 million in support of the eProcurement solution. In addition the BSM program is directed to:

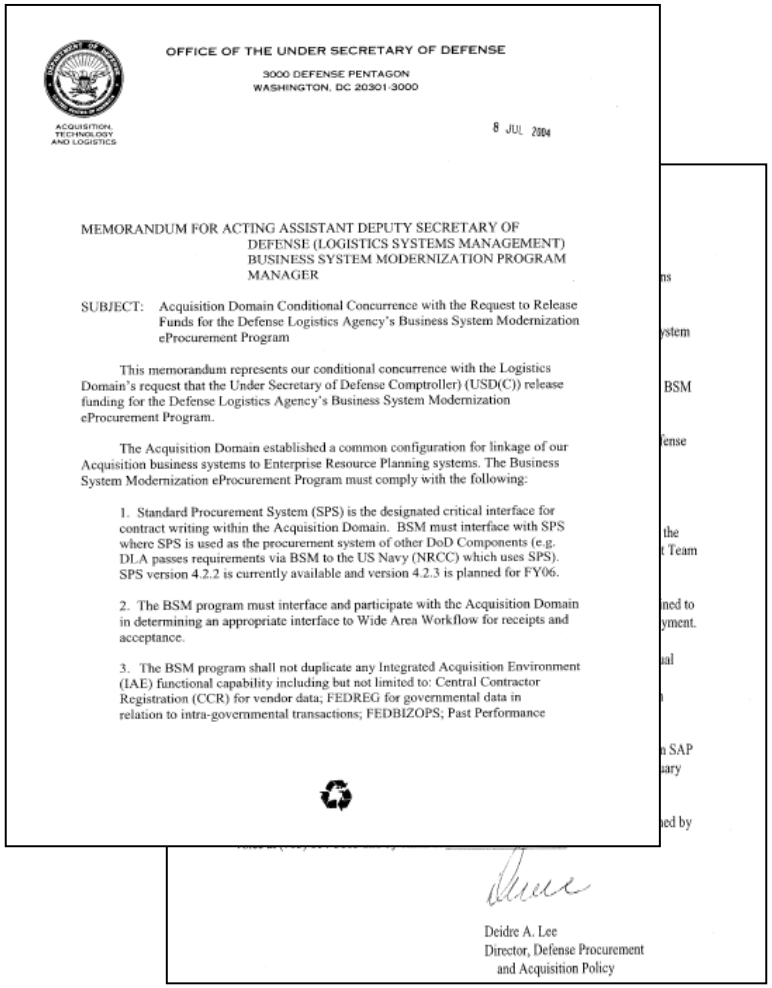
- Submit their plan to conduct independent third party assessment of the applicable Federal Financial Management Requirements to the Business Modernization and Systems Integration office within 60 days of the date of this memorandum and
- Comply with the conditions set forth by the Acquisition Domain in the attached memorandum dated July 8, 2004.

My point of contact for this matter is Mr. Leonard Haskenhoff. He may be reached by email at leonard.haskenhoff@osd.mil or by telephone at 703-602-0116.

Lawrence J. Lanzillotta
Acting

Attachment:
As stated

DPAP Memo



OFFICE OF THE UNDER SECRETARY OF DEFENSE
3000 DEFENSE PENTAGON
WASHINGTON, DC 20301-3000

ACQUISITION, TECHNOLOGY AND LOGISTICS

8 JUL 2004

MEMORANDUM FOR ACTING ASSISTANT DEPUTY SECRETARY OF DEFENSE (LOGISTICS SYSTEMS MANAGEMENT)
BUSINESS SYSTEM MODERNIZATION PROGRAM MANAGER

SUBJECT: Acquisition Domain Conditional Concurrence with the Request to Release Funds for the Defense Logistics Agency's Business System Modernization eProcurement Program

This memorandum represents our conditional concurrence with the Logistics Domain's request that the Under Secretary of Defense Comptroller) (USD(C)) release funding for the Defense Logistics Agency's Business System Modernization eProcurement Program.

The Acquisition Domain established a common configuration for linkage of our Acquisition business systems to Enterprise Resource Planning systems. The Business System Modernization eProcurement Program must comply with the following:

1. Standard Procurement System (SPS) is the designated critical interface for contract writing within the Acquisition Domain. BSM must interface with SPS where SPS is used as the procurement system of other DoD Components (e.g. DLA passes requirements via BSM to the US Navy (NRCC) which uses SPS). SPS version 4.2.2 is currently available and version 4.2.3 is planned for FY06.

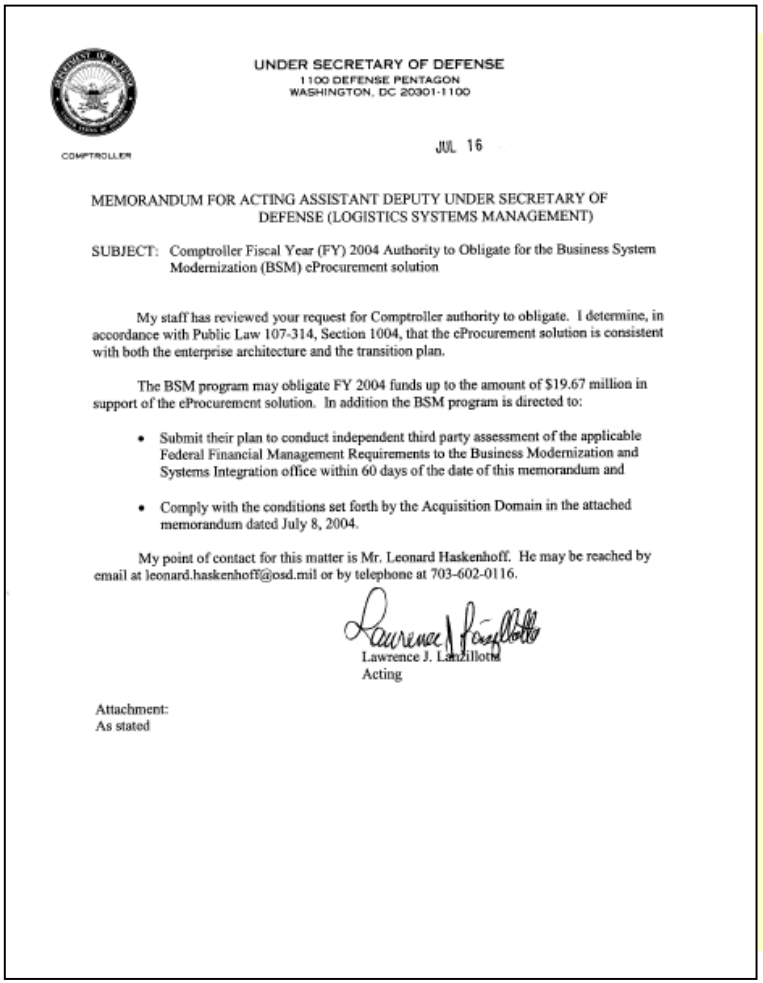
2. The BSM program must interface and participate with the Acquisition Domain in determining an appropriate interface to Wide Area Workflow for receipts and acceptance.

3. The BSM program shall not duplicate any Integrated Acquisition Environment (IAE) functional capability including but not limited to: Central Contractor Registration (CCR) for vendor data; FEDREG for governmental data in relation to intra-governmental transactions; FEDBIZOPS; Past Performance

Deidre A. Lee
Director, Defense Procurement and Acquisition Policy

OSD Comptroller Conditions of Approval

OSD Comptroller Memo



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Lawrence J. Lanzillotta
Acting

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Required Conditions:

- Approved FY2004 funds up to $19.67 million
- Submit a plan to conduct independent third party assessment of the applicable Federal Financial Management Requirements within 60 days of approval (16 Sep 04)
- Comply with Acquisition Domain conditions set forth in 8 Jul 04 memorandum

DPAP Memo

OFFICE OF THE UNDER SECRETARY OF DEFENSE
3000 DEFENSE PENTAGON
WASHINGTON, DC 20301-3000

8 JUL 2004

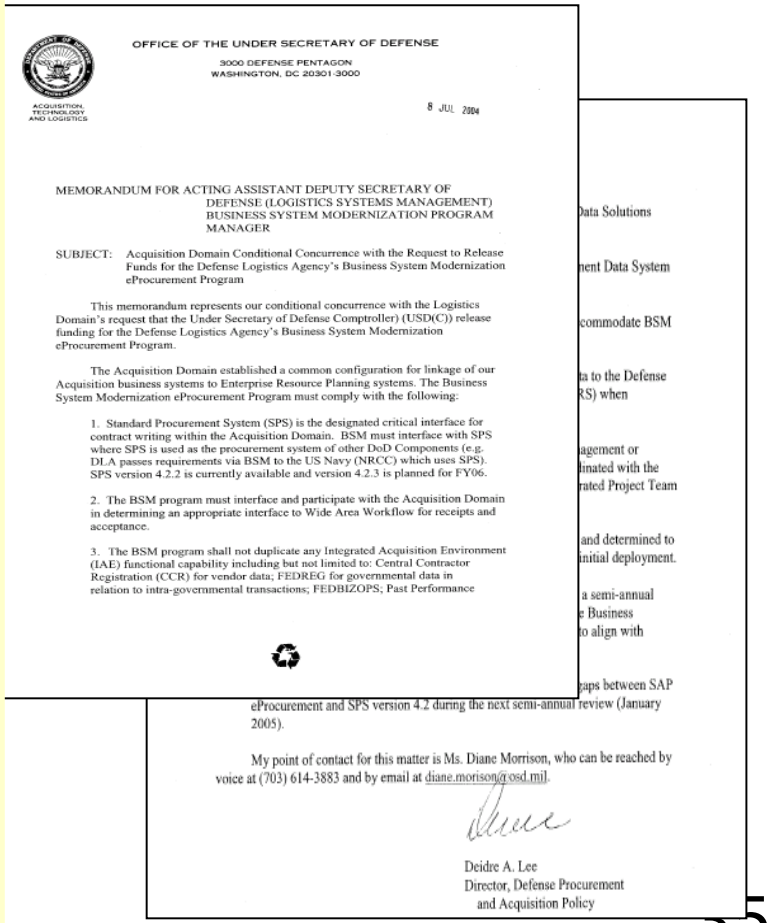
Deidre A. Lee
Director, Defense Procurement and Acquisition Policy

DPAP Conditions of Approval

Conditions:

- BSM must interface with SPS where SPS is used as procurement system of other DoD Components
- BSM must interface to WAWF
- BSM shall not duplicate functional capability for:
  - Central Contractor Registry
  - FEDREG – Federal Register Notices
  - FedBizOps
  - Past Performance Information Retrieval System (PPIRS)
  - Federal Technical Data Solutions (FEDTEDS)
- All procurement data passed to FPDS-NG
- All Intergovernmental Transactions IAW Acquisition Domain guidelines
- BSM shall pass data to the Defense Acquisition Information Retrieval System (DAMIRS) when available
- Any configuration of program management, acquisition management or oversight capability beyond financial transactions must be coordinated with PM&O IPT
- eProcurement functionality must be demonstrated and determined to be compliant with the Business Enterprise Architecture prior to deployment
- Semi-Annual evaluations to monitor alignment with Business Enterprise Architecture
- PMO must present definitive capability gaps between eProcurement and SPS version 4.2 during the next semi-annual review

DPAP Memo



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eProcurement and SPS version 4.2 during the next semi-annual review (January 2005).

My point of contact for this matter is Ms. Diane Morrison, who can be reached by voice at (703) 614-3883 and by email at diane.morison@osd.mil.

Deidre A. Lee
Director, Defense Procurement and Acquisition Policy

BSM Release 1

PD2 Version 4.2, Increment 1, Issues/Gaps

- Software design was not flexible or easily configurable
  - New requirements consistently resulted in software modifications by AMS due to the proprietary design of the software.
- Software was not scalable
  - The AMS software (PD2, OEWeb, SRWeb, and Event Manager) could not effectively process large volumes of transactions in a timely manner.
- Software was not user friendly or efficient in design
  - Example - A user had to log in to OEWeb to see electronic quotes. All quotes were not passed to PD2 for storage/retrieval
  - Example - Design did not offer a user the capability to easily view/manage their workload

BSM Release 1

PD2 Version 4.2, Increment 1, Issues/Gaps (Continued)

- Basic PD2 product lacked automation capabilities
  - Automated delivery orders
  - Automated solicitation, evaluation, and award
- Contract administration capabilities were insufficient
  - Workload management and access to contract documents in order to perform work was a major issue in Post Awards
- Insufficient Electronic Contract Folder (ECF)
  - The AMS solution did not offer the ability to store all required official contract folder documentation in one readily accessible location